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FARMERS' NEWSLETTER
Livestock

June 81/L-21

Uncertainty dominates the cattle situation this spring. With the inventory in the early expansion phase of the new cycle, producers had expected tight supplies to bring in a profit.

But because of near record interest rates, higher grain prices, and large total meat supplies, profits have not been in the picture for most cattlemen.

Unpredictable weather--and continuing low subsoil moisture in some areas--could cause further problems, especially if this summer is hot and dry.

Whatever the uncertainties, late spring and summer are critical planning periods when you'll be deciding the fate of this year's calf crop as well as breeding your cows and heifers for next year's calves. In the near term, you'll want to keep in mind:

- Total red meat and poultry supplies are likely to remain large throughout this year even though they're declining from 1980's record levels. It's the mix of supplies--more than the total amount--that will change.

Broiler production will take the lead for increases--up around 5 percent this year with more of the same likely in 1982.

Beef production is increasing cyclically right now. But the rate beef supplies increase next year will probably slacken a bit.

Only pork should decline, continuing its current trend. But in 1982, look for a slowdown.

- Feed prices, as you are well aware, are inflated too. In April, hay averaged \$73/ton compared with \$57 the previous year. And until new harvests replenish depleted supplies, prices are likely to remain well above a year ago.

- For a favorable harvest this year, subsoil moisture conditions need substantial improvement in some areas, even though spring weather has mostly been good.

- Interest rates should remain at present high levels at least through the summer.

- The best hope for minimizing cost increases lies in improved forage conditions and larger grain and oilseed crops. On the price side, a strong general economy this fall and in 1982 could help strengthen demand.

Even then, continued large total meat supplies will tend to hold down cattle price increases.

But these factors can't be controlled by individual producers. So you may want to look at two things you can control--minimizing your costs now and

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increasing productivity. These both could help you get through a rough period.

Forage and Feeding

Trying to minimize your forage and feeding costs could be the best approach to cutting expenses.

Because of unusually dry weather this past winter as well as last summer, many areas have fragile pasture conditions. Careful assessment of your developing forage supply would be a good idea right now.

You may also want to add to your hay stocks by harvesting any available from underutilized pasture. Looking at overall hay supplies on May 1, on-farm stocks were 25 percent below the record levels in 1980 and 17 percent below 1979's stocks.

In fact, it could be a good idea to more than rebuild depleted stocks, giving you a little flexibility later in the year. If you're fortunate enough not to need the additional supply, it can probably be sold at a good price this fall.

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Feed Prospects

As of May 1, this year's feed grain crop is expected to approach the 1978 record. While highly tentative, this early season forecast indicates a crop of 231.4 million metric tons, definitely an improvement from last year's 198.2 million. But total supplies won't show that much of an increase because carryin stocks will be sharply below the 1980/81 level.

Domestic feed grain use in 1981/82 may increase modestly from this year because of improved livestock feeding margins. Corn prices at the farm are expected to average $2.75 to $3.35 per bushel, compared with this year's $3.20.

Soybean production may rise slightly to 2 billion bushels, up from 1.8 billion last year. Prices should range from $220 to $260 per short ton, compared with this year's average of $225.

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PRODUCTION COSTS: HOW DO YOURS STACK UP?

Average Cash Cost[1]	1979	1980	1981	Your Estimate
	(Dollars per cwt. of feeder cattle sales)			
Feed	30.96	32.15	40.72	-------------
Pasture and range	12.38	13.77	15.28	-------------
Hay and silage	12.48	12.03	17.28	-------------
Grain and supplements	5.03	5.07	6.66	-------------
Salt and minerals	1.07	1.28	1.50	-------------
Hired labor	3.25	3.48	3.87	-------------
Fuel and electricity	4.60	6.28	7.66	-------------
Repairs, taxes, insurance	6.05	6.62	7.26	-------------
Other production expenses	7.73	8.67	9.62	-------------
Investment on operating capital	1.98	2.61	3.46	-------------
General farm overhead, cattle share	3.22	3.65	3.99	-------------
Total	57.79	63.46	76.58	-------------

[1] Sum of direct cash cost expenditures, farm-level market value of feed grains and cash costs of producing grazing and forage crops per cwt. of feeder calf and yearling sales on average U.S. beef and calf enterprises.

Keep Production Costs in Check

Feeder cattle producers can expect feed costs to be up more than $8 per cwt. this year. And for all operations, energy costs could increase around 20 percent.

Since most other costs are expected to go up 10 to 12 percent, the overall costs of production may increase by about 20 percent.

Pasture and range conditions and the cost of interest on capital remain quite uncertain at this point. Production Credit Association interest rates are presently 14 percent, up from 12.8 percent last year and commercial rates are even higher. Interest rates are not likely to be lower, especially before the end of the summer.

Most of you have already experienced tremendous increases in your interest costs. But keep in mind now that any changes in rates could have an effect on feeder cattle prices that buyers are willing and able to pay.

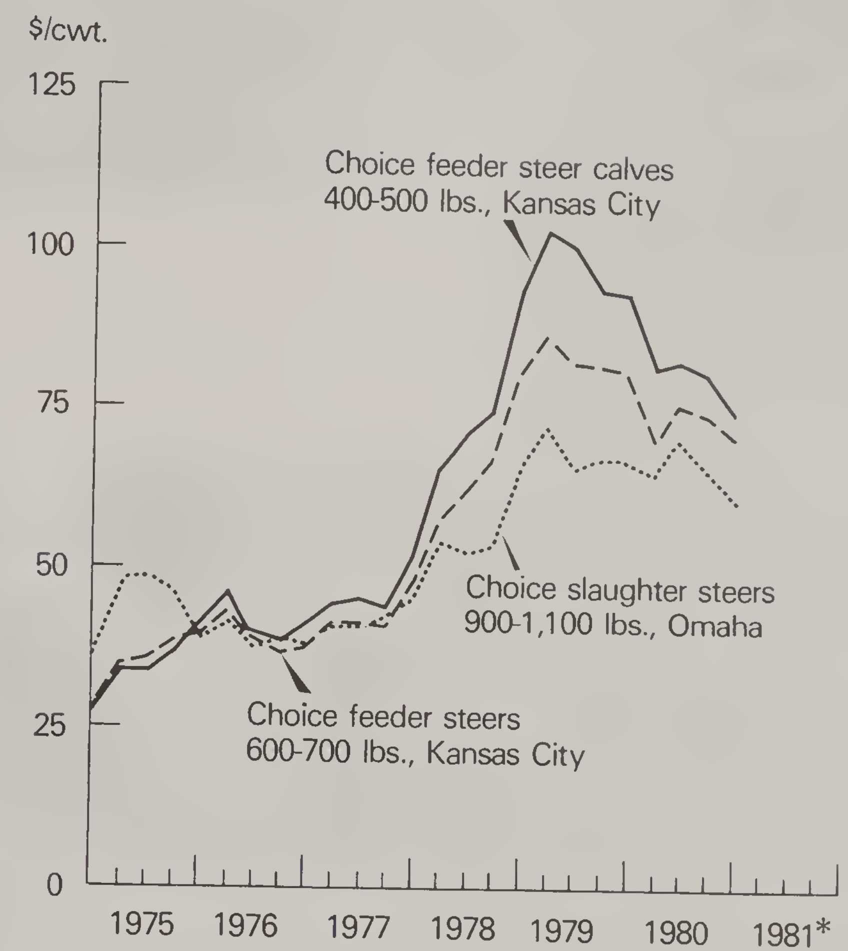
The production cost table indicates how much cash costs have risen since 1979. And it provides space for your current individual estimates. Remember to consider the value of cull breeding stock sales when considering the returns necessary to break even.

Culling and Breeding Plans

As the calving season winds down, make a careful evaluation of your herd and consider selling any problem animals--cows or first calf heifers that haven't produced healthy calves.

Of course, the ideal time to sell is during the peak pasture season later this spring when market supplies of cull cows are normally lowest and prices are relatively high.

CATTLE PRICES TO SHOW LITTLE STRENGTH



*Preliminary

Older cows, late calvers, and those that required calving assistance are also potential culls especially if your forage supplies or cash flow needs dictate a cutdown.

Selling such marginal cows that have been around a few years rather than new replacement heifers will give you an income tax break. Only 40 percent of the older animal's sales price is federally taxed--if the animal was used for breeding and kept for at least 2 years.

You may also want to take several actions now to improve your calving rate next year.

If you haven't turned your bulls in with your cows yet, a breeding soundness evaluation could pay big dividends. With increased productivity in mind, a little precautionary money spent now could prevent your finding only half your herd ready to calve next spring.

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Successful breeding depends on adequate nutrition. Usually, pasture or range alone is sufficient during the normal breeding season, but drought-damaged pasture may not be.

If you have any indication that your cows are not cycling normally, consider supplemental energy feed additives early in the breeding season.

Pregnancy testing at least part of the cow herd may be more important and economically justified than usual this year. This can be done within 6 weeks of the end of the breeding season. While such a delay may prevent timely rebreeding of open cows this season, the information could be quite useful if herd reduction becomes necessary.

Outlook on Returns

Early in May, yearling feeder cattle at Kansas City were selling at a discount to fed cattle producers; feeder calves were at a premium of $5 to $7 per cwt.

Again, these prices are being held down by high interest rates, feed costs, and continuing uncertainty about the weather. However, feeder cattle prices may strengthen this spring and summer, if interest rates decline and fall harvest prospects improve. But yearling feeder cattle prices are likely to be close to fed cattle prices.

And 900-1,100 pound Choice steers are only expected to average in the upper $60's this summer at Omaha. Some price declines could be possible in late summer as fed slaughter increases and nonfed slaughter rises seasonally.

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